

Message Text

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72

ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 OPIC-12 AGR-20 CEA-02 CIAE-00

COME-00 DODE-00 EB-11 FRB-02 H-02 INR-10 INT-08 L-03

LAB-06 NSAE-00 NSC-10 PA-03 RSC-01 AID-20 CIEP-02

SS-15 STR-08 TAR-02 TRSE-00 USIA-12 PRS-01 OMB-01

RSR-01 /189 W

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R 221842 Z JUN 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2108

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

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DEPARTMENT PASS TREASURY, COMMERCE & FRB

E. O. 11651: N/ A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING JUNE 22

BEGIN SUMMARY: GOLD TRADED BETWEEN \$120.25 AND \$122.75

AN OUNCE THIS WEEK, CLOSING AT \$120.75 ON THURSDAY.

STERLING MOVED DOWN SLIGHTLY CLOSING AT \$2.5732-1/2

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ON THURSDAY. THE LATEST NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH (NIESR) QUARTERLY BULLETIN PAINTS A REMARKABLY OPTIMISTIC VIEW OF THE BRITISH ECONOMY. GROSS DOMESTIC PRODUCT (GDP) IS REPORTED TO HAVE GROWN AT AN ANNUAL RATE OF 6 PER CENT DURING THE FIRST QUARTER OF 1973. OUTPUT CONTINUED TO GROW RAPIDLY, WITH INDUSTRIAL PRODUCTION IN MANUFACTURING INCREASING AT AN ANNUAL RATE OF 12 PER CENT. THE MONEY SUPPLY GREW AT A MUCH SLOWER RATE DURING THE PERIOD OF MID-APRIL TO MID-MAY. UNEMPLOYMENT HAS CONTINUED TO FALL. UNFILLED VACANCIES CONTINUED TO RISE, REACHING THE HIGHEST LEVELS SINCE JULY, 1966. AVERAGE EARNINGS ROSE BY 1.8 PER CENT IN APRIL. DISCUSSIONS LEADING UP TO TRIPARTITE TALKS CONTINUE WITH A MEETING BETWEEN THE PRIME MINISTER AND THE CBI. END SUMMARY

1. THE PRICE OF GOLD MOVED UPWARD FROM LAST WEEK, TRADING BETWEEN \$120.25 AND \$122.75 THIS WEEK COMPARED TO \$116.50 AND \$117.75 LAST WEEK. THE HIGH FOR THE WEEK WAS \$122.75 ON MONDAY, JUNE 18. STERLING MOVED BETWEEN \$2.5805 (JUNE 18) AND \$2.5715 (JUNE 19) CLOSING ON THURSDAY AT \$2.5732-1/2, DOWN 43 POINTS FROM LAST THURSDAY'S CLOSE.

2. THE LATEST NIESR QUARTERLY BULLETIN GIVES AN EXTREMELY OPTIMISTIC PICTURE OF THE UK ECONOMY OVER THE NEXT 12 MONTHS. IT FORECASTS AN INCREASE OF 6-3/4 PER CENT IN GDP IN 1973. THE BULLETIN MAINTAINS THAT FEARS ABOUT OVERHEATING DURING THE CURRENT BOOM HAVE BEEN EXAGGERATED, AND THAT THE ECONOMY OUGHT TO SLOW DOWN OF ITS OWN ACCORD IN THE COURSE OF THE NEXT YEAR. IT ALSO ENVISAGES CONTINUING SUCCESS FOR THE GOVERNMENT'S PRICES AND INCOMES POLICY. ON BALANCE OF PAYMENTS, THE NIESR FORECASTS A CURRENT ACCOUNT DEFICIT OF 750 MILLION POUNDS FOR 1973 (WITH A VISIBLE TRADE DEFICIT OF 1,500 MILLION POUNDS), AND 650 MILLION POUNDS FOR 1974 (WITH A VISIBLE TRADE DEFICIT OF 1,475 MILLION POUNDS). EXPORT VOLUME IS SEEN AS GROWING MORE SLOWLY THAN IMPORT VOLUME FROM NOW ON, BUT THE TERMS OF TRADE WILL IMPROVE. (DETAILS FOLLOW SEPTEL.)

3. GDP FIGURES FOR FIRST QUARTER 1973 INDICATE THE BRITISH ECONOMY IS GROWING AT CLOSE TO 6 PER CENT. THE UNCLASSIFIED

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THREE ESTIMATES OF GDP - BASED ON INCOME, OUTPUT AND EXPENDITURE DATA - SHOW VERY DIFFERENT QUARTER TO QUARTER MOVEMENTS. OUTPUT DATA IS JUDGED THE BEST GUIDE AND ROSE 1-1/2 PER CENT IN FIRST QUARTER 1973 COMPARED TO FOURTH QUARTER 1972. AN AVERAGE INDEX NUMBER ESTIMATE OF GDP BASED ON THE THREE TYPES OF DATA PUTS GDP AT 108.7 (CONSTANT FACTOR COST, 1971

100, S. A.) COMPARED TO 105.4 FOR FOURTH QUARTER 1972.

4. INDUSTRIAL PRODUCTION DURING THE THREE MONTHS
FEBRUARY - APRIL SHOT UP AT THE EXCEPTIONALLY HIGH
ANNUAL RATE OF 10 PER CENT, AND FOR MANUFACTURING
INDUSTRY THE RATE WAS 12 PER CENT. THE INDEX OF
INDUSTRIAL PRODUCTION IN APRIL FOR ALL INDUSTRIES WAS
140.6 AND FOR MANUFACTURING WAS 141.9 (1963 100, S. A.)
COMPARED TO 140.0 AND 143.0 IN MARCH. ON A LONGER
TERM COMPARISON, THE INCREASE IN OUTPUT AS A WHOLE AND
IN MANUFACTURING ALONE BETWEEN THE SECOND HALF OF
1971 AND THE LATEST 3 MONTHS WAS ABOUT 8 PER CENT
(AT AN ANNUAL RATE).

5. THE BANK OF ENGLAND REPORTS THAT M3 ROSE BY JUST
3 PER CENT IN THE THREE MONTH PERIOD TO MID- MAY.
THIS IS ABOUT 12 PER CENT AT AN ANNUAL RATE - A SHARP

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RSR-01 /189 W

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R 221842 Z JUN 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2109

INFO AMEMBASSY BERN

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USMISSION EC BRUSSELS

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DECLINE FROM THE 22 PER CENT RATE RECORDED IN THE THREE MONTHS TO MID- APRIL AND 35 PER CENT IN THE THREE MONTH PERIOD TO MID- FEBRUARY. ON THE M1 DEFINITION, THE MONEY STOCK GREW BY NEARLY 4-1/2 PER CENT IN THE THREE MONTHS TO MID- MAY, OR AT AN ANNUAL RATE OF 18 PER CENT. THE STATISTICS ON THE MONEY SUPPLY HAVE BEEN SUBSTANTIALLY AFFECTED BY SPECIAL SHORT- TERM FACTORS BUT THEY DO UNDERLINE A MARKED SLOWDOWN IN THE GROWTH OF BANK LENDING.

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6. UNEMPLOYMENT IN GREAT BRITAIN DROPPED FROM 599,000 IN MID- MAY TO 590,000 IN MID- JUNE (S. A.) WHICH IS AT RATE OF 2.6 PER CENT. THE TOTAL NUMBER OF PEOPLE UNEMPLOYED AT 545,958 IS THE LOWEST FIGURE SINCE JUNE 1970, WHEN THE GOVERNMENT TOOK OFFICE. ON A SEASONALLY ADJUSTED BASIS, UNFILLED VACANCIES HAVE RISEN BY 17,500 A MONTH IN THE PAST 3 MONTHS AND STAND AT 306,900.

7. AVERAGE EARNINGS ROSE BY 1.8 PER CENT DURING APRIL, THE FIRST MONTH OF U. K.' S PHASE TWO. BASIC WEEKLY WAGE RATES, WHICH HAD JUMPED BY 2.3 PER CENT IN APRIL, ROSE BY ONLY 0.7 PER CENT IN MAY. THE SUCCESS OF THE WAGES STANDSTILL IS BROUGHT OUT BY THE FACT THAT SINCE NOVEMBER 1972 WAGE RATES HAVE RISEN BY 4.3 PER CENT, AND EARNINGS BY 2.8 PER CENT (AGAINST 10.2 PER CENT AND 9 PER CENT RESPECTIVELY OVER THE PREVIOUS 6 MONTHS). WHEN COMPARED TO MAY 1972, WEEKLY WAGE RATES ARE UP 14.7 PER CENT. WHEN COMPARED TO APRIL 1972, EARNINGS ARE UP 13.3 PER CENT. MEANWHILE, RETAIL PRICES WENT UP BY 4.3 PER CENT FROM NOVEMBER TO APRIL.

8. THE CBI HELD ITS SECOND MEETING WITH MR. HEATH ON JUNE 18 AS PART OF THE GOVERNMENT' S EFFORTS TO RESUME TRIPARTITE DISCUSSIONS ON PHASE III. TUC LEADERS HAVE ALREADY MET THE PRIME MINISTER ON TWO OCCASIONS. THE CBI BELIEVES THE FUTURE PROGRESS OF THE ECONOMY WOULD BE JEOPARDIZED BY ANY SIGNIFICANT LET- UP IN THE PRESENT POLICY OF WAGE RESTRAINT. THE CBI HAS ALSO STRESSED THAT IT IS VITAL THAT PROFITS SHOULD BE MAINTAINED AT A HIGH ENOUGH LEVEL TO SUSTAIN THE INVESTMENT NECESSARY FOR CONTINUED GROWTH.

9. THE DISCOUNT ON STERLING WIDENED AT MID- WEEK BUT NARROWED SOMEWHAT ON THURSDAY, JUNE 21.

* 6/14 6/21 CHANGE

1 MONTH 0.22-1/2 0.28 UP 0.05-1/2
 3 MONTHS 0.90-1/2 0.89 DOWN 0.01-1/2
 6 MONTHS 1.91-1/2 1.90-1/2 DOWN 0.01
 (ALL FIGURES IN CENTS)

10. LOCAL AUTHORITY DEPOSIT RATES ROSE AT MID- WEEK
 BUT FELL BACK ON THURSDAY.

	6/14	6/21	CHANGE
1 MONTH	8-7/16	8	DOWN 7/16

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3 MONTHS	8-7/8	8-11/16	DOWN 3/16
6 MONTHS	9-1/8	8-15/16	DOWN 3/16

11. EURODOLLAR RATES FLUCTUATED AT ONE MONTH, ROSE
 AND THEN FELL BACK A BIT AT THREE MONTHS, AND
 ROSE AT 6 MONTHS THIS WEEK.

	6/14	6/21	CHANGE
1 MONTH	8-3/4	8-7/8	UP 1/8
3 MONTHS	8-3/4	8-7/8	UP 1/8

	6/14	6/21	CHANGE
6 MONTHS	8-3/4	9	UP 1/4

12. GOLD CLOSED AT \$120.75 ON THURSDAY, UP \$3.00
 FROM LAST THURSDAY' S CLOSE.

13. THE MINIMUM LENDING RATE WAS REDUCED TO 7-1/2
 PER CENT FRIDAY, JUNE 22.

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*** Current Handling Restrictions *** n/a

*** Current Classification *** UNCLASSIFIED

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To: BERN
BONN
BRUSSELS
COPENHAGEN
DUBLIN
EC BRUSSELS
EUR

LUXEMBOURG
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